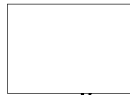


Note: The copies of
Appendix III and
Appendix IV which went
to the House Select Committee
on 5 August 1975 were made
from a Xerox copy which
had not been stamped
Secret.



D/Comp
8/5/75

STAT

~~SECRET~~

APPENDIX III

~~SECRET~~

~~SECRET~~

25X1

25X1

October 9, 1973

Mr. Harold Brownman
Deputy Director for Management
and Services
Washington, D.C. 20505

Dear Mr. Brownman:

In response to your request, we are pleased to submit this letter proposal to conduct a review of all of the audit functions of your organization.

GENERAL DESCRIPTION OF THE FIRM

[redacted] is an international public accounting firm serving its audit, tax and consulting clients through offices in 67 cities in the United States and 17 in Canada. Worldwide, the firm is located in over 40 countries with 125 offices. Since our formation 25 years ago -- through the merger of several firms with origins in the early part of the century -- we have become one of the largest public accounting firms. 25X1

[redacted] in the United States employs more than 5,000 people, supervised by almost 500 partners in every major city throughout the country. National cohesion for our offices is attained through a national organization structure and through programs for information exchange, training, and specialized support in quality control. This structure allows [redacted] to provide strong local capability supported by the resources of a large national firm. 25X1

Under the direction of twelve partners and a professional staff of approximately 80 people, our Washington office is designed to give a full complement of services on a local basis. Approximately two-thirds of the local staff are assigned to the audit function. Many have had experience in the audit process within and for the Federal government.

~~SECRET~~*Stamp "Secret" in error.
Not classified*

25X1

Mr. Harold Brownman
Deputy Director for Management
and Services

October 9, 1973
page 2

SCOPE

We understand that management recognizes and accepts the need and responsibility for an adequate audit effort by a qualified staff and the devotion of sufficient resources to achieve results comparable or better than that which would be acceptable if the organization were subject to audit by a central audit authority. As part of the objective of management to maintain such an audit effort, it is appropriate that from time to time an overall evaluation of the audit process be conducted by a qualified group independent of the audit function.

To accomplish an independent objective evaluation of the total audit effort, it will be necessary to review the scope of audit objectives and activity, specific programs, technical qualifications of the staff, adequacy of staff resources to accomplish planned objectives, and the manner in which such resources are managed. Value judgements will be required to appraise the effectiveness of the planning and scheduling of staff, audit techniques and procedures, recruitment and training, staff qualifications, and the adequacy of the numerical strength and skill mix of the respective staffs.

APPROACH

Our approach to the review can be outlined in a general manner as discussed in the following paragraphs. As our work progressed, we would, of course, develop and carry out specific procedures to best accomplish our evaluation. We believe it important to emphasize that as our effort progressed, we would expect to maintain liaison with client representatives assigned to be our point of contact by management and to have access to management as may be appropriate and mutually useful.

- Because you have requested an overall evaluation of audit effectiveness, we would assign senior people to the review. Partners, managers (all with a minimum of ten years experience), and supervisors (with a minimum of five years audit experience), would be involved. In this way, we would be offering the level of experience vital to an appraisal of the audit functions as they exist today in your organization.
- We would utilize, where applicable, an extensive program prepared for internal use within our firm which has been developed to assist us in evaluating the audit practice in each of our 67 United States offices. This program

Mr. Harold Brownman
Deputy Director for Management
and Services

October 9, 1973
page 3

has been developed over many years by our senior audit partners engaged in monitoring the overall quality of our own audit practice.

- Users of the audit reports (your "clients") would be interviewed to assess the responsiveness of the reports to their needs.
- We would analyze the actual elements of a representative number of audits. For example, audit programs, working papers and reports prepared in connection with a certain number of audits would be reviewed. We anticipate that every type of audit effort engaged in by the audit functions would be examined on a test basis.
- We would challenge the recruiting, training, promotion, and assignment practices of the professional staff, keeping in mind the objectives of management as they relate to the audit function.
- We would assess the use of advanced auditing techniques such as audit-EDP, statistical sampling, and flow-charting.
- During our review, we would keep in mind the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" as published by the GAO and the relationship of those standards to the organization's audit function.

STAFFING

As discussed under our approach, senior personnel would be assigned to the engagement.

Project Director would be [] partner-in-charge of the Washington, D.C. office, who has over 16 years audit experience, five in managing a public accounting practice office of approximately 100 people. 25X1

Advisory partner would be [] senior partner. [] spent over 25 years in government service and over 18 years in the practice of public accounting. 25X1 25X1

An audit partner, [] would be assigned to assist in the review of the commercial audit activity. [] has a significant background in government contracting and has responsibility for significant engagements in the Washington office. He 25X1 25X1

~~SECRET~~

Approved For Release 2008/06/04 : CIA-RDP85B00552R001100110015-4

Mr. Harold Brownman
Deputy Director for Management
and Services

October 9, 1973
page 4

is familiar with ASPR and the workings of the CASB, having spent many years in the audits of our own government contracting clients.

[redacted] principal, would be available to review the audit-
EDP process. [redacted] has extensive experience in computer
technology, and has been involved over the years in working with
the development of our firm's audit software system, STRATA, and
in working with our audit staff in auditing through the computer.

25X1

25X1

Other senior staff consisting primarily of audit managers with assistance from audit supervisors would be assigned.

Where specialized skills would be helpful, partners and staff expert in data processing and statistical sampling related to the audit process would be involved.

TIMING

We are prepared to begin work the week of October 15, 1973 and complete our field work prior to December 21, 1973. Report preparation would begin at that time with draft reports ready for review by January 15, 1974. The final report would be issued by January 31, 1974.

REPORT

At the conclusion of our field work, we would begin the drafting of the report. During the report writing stage, we would expect to meet with appropriate levels of management to obtain assurance that factual information was correct.

Our report would set forth our findings and conclusions, as well as offering recommendations for improvement. We would anticipate that discussions of the draft report would be held with all levels of management prior to its final release.

ESTIMATED COST

We typically base our charges to clients on the actual time devoted to an engagement. We endeavor to use an optimum mix of skilled staff members in order to adequately perform the work at a reasonable fee. Out-of-pocket expenses would be charged in accordance with government regulations.

Because of the nature of this project, requiring the attention of experienced personnel, the average rates charged would be higher.

~~SECRET~~

Approved For Release 2008/06/04 : CIA-RDP85B00552R001100110015-4

Mr. Harold Brownman
Deputy Director for Management
and Services

October 9, 1973
page 5

than those which may be evident in a normal audit examination. A proposed level of effort by person assigned along with respective billing rates is presented below:

	<u>Rate</u>	<u>Hours</u>	<u>Total</u>
Partner-in-Charge of Engagement	\$75	80 - 100	\$ 6,000 - \$ 7,500
Advisory Partner	75	32 - 40	2,400 - 3,000
Audit Partner	65	40 - 50	2,600 - 3,250
Technical Partner-EDP	60	24 - 40	1,440 - 2,400
Manager	44	300 - 350	13,200 - 15,400
Supervisor	35	250 - 300	8,750 - 10,500
			34,390 - 42,050
Out-of-pocket expenses			1,610 - 1,950
			<u>\$36,000 - \$44,000</u>

As is apparent, we estimate a total fee of from \$36,000 to \$44,000 would be involved. In any event, we would bill only for actual hours worked on the engagement. For purposes of providing a ceiling, we offer to undertake the engagement at a fee not to exceed \$44,000.

* * * * *

We trust this is responsive to your request. Should you have any questions, please contact 25X1

Very truly yours,

25X1

Certified Public Accountants

APPENDIX IV

~~SECRET~~

Page Denied

~~SECRET~~

25X1

ATTACHMENT "A"

I. SCOPE OF WORK:

The Contractor shall furnish the necessary personnel and equipment (except that which may be furnished by the Government) to conduct a review of all of the audit functions of the Agency to accomplish an independent objective evaluation of the Agency's total audit effort. This review shall be in accordance with the Contractor's proposal letter dated 9 October 1973, incorporated herein by reference and made a part hereof.

II. DELIVERABLE ITEMS:

1. Final Report - One (1) high quality reproducible copy.

III. PERIOD OF PERFORMANCE:

The period of performance for this Contract shall be 15 October 1973 through 31 January 1974.

IV. LEVEL OF EFFORT:

The Contractor agrees to exert due diligence in the performance of work hereunder and in so performing to expend, not to exceed, the equivalent of \$42,050.00 of direct labor in the following categories:

1. Partner-in-charge (Project Director)
2. Advisory Partner
3. Audit Partner
4. Technical Partner - EDP
5. Manager
6. Supervisor

Within the above categories, a minimum of 726 hours of direct labor will be utilized by the Contractor.

In addition, the Contractor is authorized an amount of, not to exceed, \$1,950.00 for out-of-pocket expenses for actual and reasonable travel and/or miscellaneous expenses directly related to the performance of the work hereunder in accordance with current U. S. Government travel regulations.

~~SECRET~~

Stamped "Secret" in error
Not Classified

25X1

SECRET

25X1

Attachment "A"

Page No. 2

Upon completion of the work under this Contract, the Contractor shall submit to the Contracting Officer a certified statement, supported by the necessary detail, that the level of effort set out above was actually expended in the performance of this Contract. In the event that less than the minimum labor hours are expended and/or less than the equivalent of \$42,050.00 of direct labor is expended, the Contracting Officer may, (1) require the Contractor to continue to perform work beyond the period of the Contract until the minimum level of hours and/or dollars has been provided, or, (2) negotiate a downward revision of the price of the Contract.

V. GUARANTEED FINAL REPORT:

Notwithstanding the provisions of the Level of Effort clause of this Contract, the Contractor agrees to deliver a final report covering all work actually accomplished.

VI. COMPENSATION AND PAYMENT:

In consideration for the full performance of this Contract and subject to the conditions that the minimum Level of Effort set forth herein is expended by the Contractor in said performance, the Contractor shall be paid the sum of \$44,000.00.

VII. INTERIM PAYMENTS:

The Contractor shall be paid upon submission of proper invoice (original and three (3) copies) according to the following schedule:

30 November 1973

- Maximum one-third (1/3) \$44,000.00

31 December 1973

Balance - Upon delivery and acceptance of final report . and certification of Level of Effort.

VIII. PERSONAL CONDUCT:

The Contractor and his employees shall comply with the conduct requirements in effect at the Government work site of this Contract. The Government reserves the right to exclude or remove from the site any employee of the Contractor or of a subcontractor as the Government deems careless, insubordinate, or otherwise objectionable or whose continued employment on the work is deemed by the Government to be contrary to the public interest.

SECRET

SECRET

25X1

Attachment "A"
Page No. 3IX. SECURITY REQUIREMENTS:

The Contractor agrees, as signatory to this Contract, that all employees assigned to the work hereunder are U. S. citizens.

X. LIABILITY OF THE CONTRACTOR:

The Contractor agrees that all persons performing the work hereunder shall maintain a high degree of vigilance and diligence to prevent any damage or injury to Government property, equipment or personnel in the vicinity of the work and to the greatest extent possible, avoid any interference with any operations that may be in process during the work performed hereunder.

XI. AUTHORITY OF SPONSOR'S EMPLOYEES:

The Contracting Officer is the only employee of the Sponsor authorized to enter into contracts, amendments or to direct changes pursuant to the "changes" clause or other clauses hereunder permitting equitable adjustments affecting the Contract price. Consequently, the Contracting Officer is the only employee of the Sponsor who is authorized to commit Government funds pertaining to the execution of this Contract. Unless otherwise specified herein, no other employee of the Sponsor has the authority to initiate a course of action affecting the price of this Contract. Should any action by an employee of the Sponsor other than the Contracting Officer imply a commitment on the part of the Government which would affect the price of this Contract, the Contractor must notify the Contracting Officer and receive his approval prior to proceeding. Otherwise, the Contractor proceeds at his own risk.

XII. PRICE STABILIZATION CERTIFICATION:

The bidder or offeror (Contractor) certifies that he is in compliance with the price stabilization requirements of Executive Order 11723, dated 13 June 1973, and amendments thereof, and the regulations of the Cost of Living Council as set forth in Title 6, Code of Federal Regulations, Part 140, or any additions or revisions to Title 6.

SECRET